



INDEPENDENT ACCOUNTANTS' REPORT

To: FairPoint Communications, Inc. and the
Federal Communications Commission

We have performed the procedures enumerated below, with respect to the independent accountants' report on the compliance or non-compliance of FairPoint Communications, Inc., ("Operator") with conditions set forth by the Federal Communications Commission ("FCC"), together defined herein as the Specified Users, both with respect to FairPoint Missouri, Inc. (formerly known as Cass County Telephone Company) and the FCC's general requirements regarding the Universal Service Fund ("USF") and the Compliance Manual: NECA and USAC Revenues (the "Manual") with the conditions set forth in July 20, 2006 Order (WC Docket No. 06-64) and generally with the FCC requirements relating to the USF for the year end at December 31, 2008.

This engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Specified Users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follow:

Section A – Projected ICLS support

1. Line counts via NECA data request (FCC Form 507) as of 12/31/08 for preceding year. Due July 31st.

Findings: Line counts trace from DMA to Form 507. No exceptions were noted.

2. If competition is involved, a quarterly line count submission to USAC is required. Form 507 should be submitted with each quarterly line count. Forecasted line counts are due March 31, September 30, and December 31. Trace BL-67 to NECA line count Data Request to DMA 1050.

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Findings: No competition for FairPoint Missouri. Form 507 was submitted at the end of the year. Form 507 traced to the DMA as of 12/31/08. No exceptions noted.

3. Form 509 submitted by NECA with the projected CCL revenue requirement. Trace CCL revenue requirement to mini-study. Evaluate estimates of other revenues for reasonableness.

Findings: From FairPoint Missouri EC Review spreadsheet (Form 509) got one twelfth of the Interstate Common Line Support (ICLS) figure ($980,281/12=81,690$) and traced it to the May 2008 settlement summary EC 3050-O. The same figure was traced from the EC 3050-O to the June 2008 monthly mini-study done by FairPoint Communications. No exceptions noted.

4. True up to the final cost study submitted by the consultants on July 31. Trace to final cost study.

Findings: The cost study ties out to the monthly NECA settlement for the year 2008. No exceptions were noted.

5. Final ICLS amount and true up is done by NECA and submitted to regional controller in December time frame for review and certification on Form 509. Trace BL-67 to Form 509. Trace Cost Study to form 509. Trace other revenues to 509.

Findings: Cost study traced to form 509. Amounts verified with no exceptions.

6. Consult that NECA has reflected the correct CCL revenue requirement and line count before certifying. Check review process.

Findings: Reviewed mini-study prepared by FairPoint Communications and verified that the revenue requirement and the line counts are reviewed before certifying. No exceptions noted.

Section B – Projected LSS support

1. Estimates submitted to NECA for the last 3 years. Compare NECA LSS projection to the mini-study.

Findings: From 2008 Local Switching Support (LSS) projection got one twelfth of the LSS figure ($674,521/12=56,210$) and traced it to the May 2008 EC 3050-O.

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Also, traced to the mini-study (June 2008) and the respective adjustments. No exceptions noted.

2. Estimates of the LSS calculation need to be certified by the Vice President of Regulatory Affairs. Check with Mr. Patrick Morse about the process of certification.

Findings: Estimates of the calculation is initialed (as a method of certification) by a reviewer from FairPoint (Jana Manterola – Accounting Manager). No exceptions noted.

3. The projected LSS is reflected on the monthly EC3050. Regional Controller verifies that the LSS reflected on the EC3050 is one twelfth of the amount that was received. Check EC3050 to 1/12 of the LSS.

Findings: From the 2008 Local Switching Support (LSS) projection, we got one twelfth of the LSS figure and traced it to the May 2008 settlement summary EC 3050. No exceptions noted.

4. LSS revenues received by the company are true up to a final amount based upon the final Cost Study results submitted by the consultants. Test sample of LSS worksheet to Cost Study.

Findings: Reviewed the FairPoint mini-study and the amounts that are adjusted as needed. Final cost study true up amount was traced to NECA disbursement form.

5. NECA will send out to each Regional Controller in November/December the final LSS amount for the previous calendar year to verify and certify. Compare final Cost Study to NECA LSS true up worksheet.

Findings: Compared the final LSS amount sent by NECA to the 2008 cost study true up. No exceptions noted.

6. NECA submits the final LSS support, USAC submits the adjustment for actual versus estimated and incorporates the adjustments into the pooling process. Trace LSS final to rate base (yr. end) and expenses (yr. end) worksheets. Trace rate base and expenses worksheets to trial balance.

Findings: All amounts were traced to their respective worksheets. Cost study used to review final figures and adjustments. No exceptions noted.

Section C – Projected Universal Service Support

1. Certify to the FCC by October 1 of each year that all federal high cost support provided to such carriers within each state will be used only for the provision, maintenance, and upgrading of facilities and services for which support is intended. Certification form. Verify reasonableness of USF receipts to expenditures.

Findings: Certification sent July 27, 2009 for FairPoint Missouri to the State Regulatory Commission. No exceptions noted.

Section D – Projected HCL support

1. Mandatory annual HCL submission based on different factors for the annual Cost Study process. Tie data collection from the Cost Study. Tie Cost Study to trial balance.

Findings: Cost study shows a projected balance of \$1,702,810. Miranda Ellis, Regulatory Accountant II, brought the High Cost Disbursement Data document that presents the actual figure of \$1,918,887. Figure per final trial balance is \$1,918,875, a \$12 difference. Adjustment made on January 2009. The \$12 difference from the trial balance number is immaterial.

2. Regional controllers ensure that the financial statements submitted tie to the final audited results send to the consultants. Tie financial statements to trial balance.

Findings: After reviewing the trial balance for FairPoint Missouri, for both 03/31/2008 and 12/31/2008, we can conclude that the amounts used on FairPoint Communications Consolidated Financial Statements for FairPoint Missouri are correct. We can determined that the amounts sent to the cost consultants for the FairPoint Missouri 2008 cost study are the appropriate amounts used for FairPoint Communications Consolidated Financial Statements for the year ended 2008. No exceptions were noted when tracing the reconciliation made by Keri Zimmerman, Accountant II, from the total figures YTD 12/31/08, to the amounts used from April 2008 to December 2008. An entry was made to adjust the balances for Consolidated Financial Statements purposes.

3. Calculation of the HCL results, using an estimated National Average Cost Per Loop, are discussed with the Vice President. Verify for reasonableness.

Findings: In conversation with the accountant, Miranda Ellis Regulatory Accountant II, the discussion between the Company, FairPoint, and the cost consultants, TCA, for the approval of the estimated national average cost per loop

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is done. After verifying the TCA worksheet on the 2008 cost study, we can conclude that the amounts calculated are accurate.

4. Range parameter threshold are built into the USF system for the line items that have the greatest impact on the USF. Verify for any range failures.

Findings: In 2008 Cost Study, reviewed the USF spreadsheets and found no range failures in any of the accounts use by the USF system. No exceptions noted.

5. Vice President and regional controller spot checks the date and submit a signed certification form attesting the accuracy of the information. Verify with Mr. Patrick Morse.

Findings: Procedures completed by Mark Ellmer, Director Support Revenues. No exceptions noted.

6. NECA sends out a notification letter as to the upcoming year's annual distribution to each company prior to the first of the next calendar year when the HCL support becomes effective. Verify for reasonableness.

Findings: Done without exceptions.

7. Monthly disbursement statements received from NECA. These are reviewed by accounting department to determine if any changes have occurred in the HCLS amount. Compare disbursement notifications to USF notifications from NECA.

Findings: Sample USF and NECA notifications were reviewed and are accurate with the numbers from the accounting department. FairPoint Communications received the disbursement statements and the revised ones after any adjustments are made to the first one. No exceptions noted.

8. HCL amount is true up in account 5069.1000. Trace to financial statements.

Findings: Amount is true up in a monthly basis for the HCL account 5069.1000. Amount traced to trial balance figure and to the financial statements. No exceptions noted.

9. The regional controller spot checks the adjustments and discusses any unexpected changes with the appropriate consultant to double check the accuracy of the revision by NECA. Verify with Mr. Patrick Morse.

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Findings: Regulatory accountant inputs the figures. A general ledger accountant compiles the information for a third person reviewer. Information received by Miranda Ellis, Regulatory Accountant II. No exceptions noted.

10. Accounting Associate in the SE Region and GL accountant in the other regions will review the appropriate disbursement statements to verify the adjustments matches the information received by NECA. Verify with Mr. Patrick Morse.

Findings: Regulatory accountant inputs the figures. A general ledger accountant compiles the information for a third person reviewer. Information received by Miranda Ellis, Regulatory Accountant II. No exceptions noted.

Section E – Lifeline-Link Up

1. Company maintains a copy of the state certification and the state establishes qualifications in their files. Verify tariff.

Findings: State certification obtained and verified. No exceptions noted.

2. Once a year the Company must publicize the availability of lifeline/link up support in a manner designed to reach those who are like to qualify for these discounts. Verify with advertising.

Findings: Obtained copy of actual notice sent. No exceptions noted. Also, for the customers that qualify for the program, we reviewed the application that FairPoint sends to them to be part of the program.

3. Customer presents to the Company a certification document from the State Department of Social Services verifying that they meet the state's qualification requirements. A copy of the document is maintained in the customers file. Customer needs to recertify their eligibility once per year. Verify samples of customer eligibility.

Findings: A form called Kansas Lifeline Service Program Self Certification Form for Income Eligibility explains to the customer all the requirements needed to be part of the program. A copy of the document is kept in the customer file. Customer needs to renew their eligibility every year. No exceptions noted.

4. Billing supervisor/customer service supervisor verifies that the discounts are accurately being reflected in the company's local service and the connection revenue accounts, accounts 5001.000, 5081.000, and 5060.000, respectively. Verify samples of RJ.

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Findings: Done without exception.

5. Company receives reimbursements from the Low Income Support Fund through submission of a monthly FCC 497 form prepared by the accounting department. This form is reviewed by a different individual. Verify report files and reimbursements.

Findings: Form 497 shows the details for the number of lifeline/link-up subscribers and the amount of the money the company is claiming for the service. The lifeline section shows the four different tiers the company offers and the amount of customers for each of the tiers. The link-up section is separated between Non-tribal and tribal. The form is completed in the accounting department and is initialed by an accounting department person to show it has been reviewed. No exceptions noted.

6. The reimbursement for the discounts is received monthly on the NECA disbursement notice. The monthly reimbursement is an estimate based on previously submitted quarterly 497 forms. Verify NECA disbursements.

Findings: NECA disbursement statements were observed and all the information regarding lifeline/link up was accurate. Also, observed the revised disbursement statements with the adjustments needed. No exceptions noted.

7. An Accounting Supervisor in the SE region and GL accountants in the other regions will verify monthly that the true up amount is reflective of the amounts submitted on the 497 as compared to the estimated payments. Compare 497 to G/L.

Findings: Per inquiry, procedures done.

8. A source document is maintained which documents the amount put in the receivable account per billing reports, which is the same amount as what was submitted on the 497, as well as the first estimated payment from NECA and the final true up amount from NECA which should be zero out the receivable within penny rounding amounts. Verify source document.

Findings: The form 497 ties to the G/L accounts 1190.1203 and 1190.1207. Both figures tie out to the lifeline figures from the June 2008 Form 497. No exceptions noted.

Section F – Preparation of data pool

1. DMEs are developed based on rate base amounts, expenses and taxes provided by the consultants and estimates of access lines, access minutes of use, and revenue developed by the accounting based on past experience or actual based on CABS billing data. The data is entered into an EC 1050 spreadsheet and supporting documentation kept on file. Form EC1050 inputs to source documentation.

Findings: DME's for June 2008 and November 2008 were reviewed for consistency. These are based on estimates and submitted to NECA monthly. No exceptions noted.

2. A source document is used to gather all revenue, access lines, and access minutes of use information to be reported to the pool. Revised source documents for errors.

Findings: Reviewed BL 67-5, Form CAB130R, general ledger postings for access and subscriber line revenues, MW Region Unit Trending and Intrastate Access Support Revenue. All documents received as requested.

3. Once the spreadsheet is complete, it is entered into an EC 1050 spreadsheet which compares it to the DME on file and calculates the true up amounts. Verify DMA and compare to source document.

Findings: April, May and June 2008 DMA inputs for actual amounts traced to MW Region Unit trending document for 2008 and general ledger postings. No exceptions noted.

4. Rate base, expenses and taxes are not trued up to actual unless a material change to the company's information is noted or known. Check if changes are been made.

Findings: All information related with rate base, expenses and taxes is not true up unless a significant adjustment is needed. No exceptions noted.

5. The final EC1050/AS1000 spreadsheet, as well as the reconciliation of the EC1050/AS1000 to the general ledger is reviewed by a different individual than the one who prepare it.

Findings: Observed that spreadsheets were prepared by one individual (Miranda Ellis) and reviewed by another (Jane Manterola). Prior years had initials of reviewer as documentation of review. Currently names are typed in the "prepared by" and the "reviewed by" sections.

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6. The reconciliation spreadsheet is reviewed for accuracy and any necessary corrections are sent back to the preparer for changes. Once completed, the reviewer sign offs on the EC1050 spreadsheet and maintains it on file. Verify DMA worksheet.

Findings: No reconciliation worksheet if no changes made. Backup to any prior period "accrual" adjustments are included in documentation. June 2008 adjustments due to May 2008 accruals reviewed.

Section G – Reporting data to pool

1. The system requires a user ID and a password which is maintained by only the Regional Controller and one other individual (Accounting Manager/Supervisor).

Findings: Completed a "walk thru" with Miranda Ellis, Regulatory Accountant II, on September 23, 2009 as she logged into the NECA system. No exceptions noted.

2. DME's and DMA's are entered from the EC1050/AS1000 spreadsheets by the Accounting Manager/Supervisor, who then checks the accuracy of the input by viewing the screen and comparing data to the EC1050/AS1000 spreadsheet. Testing spreadsheets to source.

Findings: Observed Miranda Ellis, Regulatory Accountant II, pull up June 2009 data of the EC 1050 spreadsheet and show how to put the adjustments into the NECA system. No exceptions noted.

3. The adjusted DME amounts on the screen tie to the actual revenues on the EC1050/AS1000 spreadsheet. Verify with Mr. Patrick Morse

Findings: June 2008 amounts on DMA tied to June 2008 general ledger per walk thru with Miranda Ellis on September 23, 2009.

4. The system is built with allowed ranges in the set up. If data that is entered is outside of the range, a message pops asking the reviewer to verify the data and, if accurate, special release the information.

Findings: Discussed with Miranda Ellis on September 23, 2009. Pop ups do happen when figures are both less and more than the expected range. In most cases an explanation by her in the program lets the program move forward.

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5. The reviewer is required to certify the data on the system by entering his/her name in the "Certify by" line of the EC1050 on screen. A certification form is signed monthly by the Accounting Manager/Supervisor and sent to NECA by February 1 following the pool year for their files.

Findings: Two sample months were used, May 2008 and July 2008. Both months were prepared by Miranda Ellis, Regulatory Accountant II, and certified by Jana Monterola, Accounting Manager (Ellensburg, WA office).

Section H – Reconciliation and recording

1. Data submitted through the system is used to generate a NECA settlement statement which includes two sections, an EC3050-O for cost companies and a AS3000-O and AS2053-O for average schedule companies. The pages of the EC2053-O show the true up to each pool caused by the DMA's and any RA's entered for each company.

Findings: Traced information from data submitted in form 2053-O to the DMA form. FairPoint Missouri receives EC3050-O monthly statements, after submitting all the information. All the information is gathered by the accounting department and saved for any questions or discrepancies in the true ups. No exceptions noted.

2. The preparer reconciles the amounts shown as true ups on the statement to the amounts on the EC1050/AS1000 spreadsheet that they prepared and submitted to the reviewer for input in the system. This reconciliation is performed and documented as part of the preparation of the monthly entry to record the NECA settlement statement to the ledger. Any discrepancies are investigated and corrected by the preparer. If necessary corrections are not made, the final reconciliation procedure of the 24 month last view as described at the very end of this sub process will not tie out. Verify reconciliation for errors. Verify if any discrepancies existed and if they were investigated and corrected then.

Findings: Traced information from the EC 1050 worksheet to the 24 month latest view for January 2009. FairPoint reconciles the true up amount in the statement, EC2053-O, to the figure in statement EC1050. This statement is prepared by one individual, and signed off, and certified by another, and signed off. The figures tie out to the final reconciliation procedure of the 24 month last view statement. No exceptions noted.

3. These monthly amounts are recorded by the preparer to the 5082-1103, 5082-1203, and 5082-1403 accounts to properly reflect the year to date estimate interstate revenue requirement. It also includes the ICLS and the LSS support

revenues for the month. These are recorded by the preparer to the 5082-1100 and 5082-1206, respectively. This entry also accrues/records one month of the HCL support to the 5069-100 account although it is not specifically included in the EC3050-O/AS3000-O. A receivable, or potentially a payable, is booked to the 1190-1003 for the amount due the company from NECA for proper disbursement of pool revenues and universal support mechanism funds. Verify that revenues were correctly recorded. Verify HCL USF recorded correctly.

Findings: FairPoint in their RJ-23 includes all the figures that are going to be recorded for the accounts: 1010-58205-0, 1010-58202-0, 1010-58204-0, 1010-58203-0, 1010-58200-2, and 1010-50690-0 in the revenue section of the G/L. Also, the receivable in account 1010-11900-0324 is recorded in the G/L. No exceptions noted.

4. The receivable is cleared by cash received/paid from/to NECA. The notice is reconciled to the statement by the preparer. Verify with the G/L.

Findings: FairPoint records the payment received from NECA in the same account it record the receivable, so it offsets the amount recorded from the RJ 23 in account 1010-1190-0324. No exceptions noted.

5. Reconciling items are documented and maintained by the preparer with the Manual journal entry prepared for recording the statement. Corrections are reviewed by the preparer following month as described in the first paragraph of this sub process, with the exception of the Mid-Atlantic where the reconciliation occurs in the period end close process. Review the reconciling items against RJ.

Findings: FairPoint documents and maintains all the information from the months before. They maintain the information to make any corrections they need to change on any of the statements. No exceptions noted.

6. The notice also includes one month of revenue from the HCL fund. The receipt of cash is verified through the bank reconciliation by the preparer. If the amount on the bank statement is not the same as the amount on the notice, the NECA Service Member representative is contacted by the reviewer for resolution. Compare NECA disbursement notification against bank record. Check if contact is made.

Findings: Revised NECA disbursement notification from July 2008 and traced to Bank of America bank statement for July 2008. No exceptions noted.

7. As a final reconciliation procedure, the 24 month latest view is tied to the GL on an annual basis. The 24 month latest view is included with the statement from

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NECA. It shows the monthly EC1050/AS1000 amounts entered into the system. Trace G/L to 24 month latest view

Findings: Reviewed that the 24 month latest view ties out with the G/L figure for the next month. For example, the figure in the 24 month latest view, for May 2008 ties out to what is recorded in the GL for May 2008. No exceptions noted.

8. Final spreadsheet is given to the GL Supervisor for review and signed off. The final spreadsheet is maintained by the reviewer. Verify that the review and the sign offs are done.

Findings: Observed that GL Supervisor reviews and sign offs on all of the final spreadsheets made by the preparers and keeps copies of all of them. The spreadsheets are signed off by the preparers and right below the preparers signed off is the reviewer signed off. No exceptions noted.

Section I – Monthly Mini-Study

1. The calculated revenue requirement is compared to the revenues recorded on the ledger, including true ups from DMA's recorded in accounts 5082-1103 and 5082-1203. An accrual entry is generated by the preparer to record additional revenues if the actual on the company's books are less than the companies calculated revenue requirement; a decrease in revenue is recorded if the actual revenue recorded on our books is more than our calculated revenue requirement. This receivable is recorded in the 1190-1103 and will true up with the filing of the annual cost study. Compare mini-study revenue requirement to GL account and ensure that an AJE was made.

Findings: The figures that FairPoint recorded in the mini-study, for accounts 1010-58205-0 and 1010-58202-0, were traced to the figures recorded in the GL. Adjustments were made for the respective accounts. No exceptions noted.

2. This calculation and the related entry are reviewed by the reviewer or controller each month and documented with all of the other manual journal entries kept in the monthly binder. Ensure review was done.

Findings: FairPoint reviewer initials the documents that she/he reviews and makes sure to keep all the documents with the manual journal entries. No exceptions noted.

3. In the later part of the year, a forecast of expenses is given to the consultants for preparation of another estimate for the year. Ensure budget was sent.

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Findings: FairPoint prepares a forecast for the whole year. This forecast includes estimates for all the expenses and the taxes of the company. This budget is sent to the cost consultants for the preparation of the cost study. No exceptions noted

4. The revenue requirement calculated by the consultants is compared to the current year to date revenue requirement calculated by the company and recorded on the ledger. Significant differences are evaluated and analyzed by the Regional Controller and, if necessary, discussed with the consultants. Compare and revised mini- study to GL. Verify if differences were evaluated and analyzed.

Findings: The mini-study ties out with the figures recorded in the GL. The revenue section in the mini-study is evaluated and verified for any differences, and then recorded to the GL. The process is approved before it gets posted in the GL. No exceptions noted.

Section J – Annual Cost Study

1. Consultants prepare the annual cost study based on final financial statements and CPR records. The results are discussed with the Vice President and regional controllers. Verify that discussion occurred.

Findings: The trial balances sent to cost consultants is final and looks reasonable. FairPoint officials meet with the consultants and discussed the results. Confirmed annual meetings and on-site visits with cost consultants are taking place. No exceptions noted.

2. Variances are investigated and input into a spreadsheet with notes used to document the cost study true up entry and the reasons behind the variations. Noted errors are corrected before submission to NECA. The cost study is submitted to NECA. Verify that variances and input were investigated, and verify notes and cost study true up entry.

Findings: The cost study is reviewed by several people in the company and all true ups are discussed by the consultants and company management. No exceptions noted

3. DMA's are prepared by the consultant and entered into the system by the reviewer per the procedures documented above. These DMA's are verified and reconciled per the procedures previously described. Verify procedures were followed and input was made.

Findings: The DMA's true ups are prepared by the consultants and entered into the system by FairPoint. The spreadsheet, EC1050 worksheets, is used to record

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both figures: the estimate and the actual. The EC1050 worksheet has a section for the preparer and the person who certifies to sign off. No exceptions noted.

4. Predicted cash flow due to the cost study true up is verified with actual and material variances are investigated for accuracy per the procedures documented in the monthly reconciliation and recording processed data. Compare GL and NECA disbursement notification to estimated cost study true up from consultant. Verify variances were investigated and documented.

Findings: FairPoint receives the NECA disbursement notification and reviews for adjustments that need to be made. After making sure that the figures are reconciled, FairPoint records the figures in the GL. No exceptions noted.

Our findings and opinions are limited to the scope of our engagement. We were engaged to examine and report on the compliance or non-compliance of Operator the conditions set forth in the Manual, and generally with the Commission's requirements relating to the USF with respect to the distribution of USF to the Operator for the period ended in December 31, 2008. We were not engaged to evaluate or express an opinion on the accuracy of the information provided in the Manual.

This report is intended solely for the use of the Specified Users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose.

A handwritten signature in cursive script that reads "Kiesling Associates LLP".

Kiesling Associates LLP
Colorado Springs, CO
October 30, 2009